



HORNSBY & COMPANY, INC.

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Energy Risk
Management Services

HIGHLY CONFIDENTIAL

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WEEKLY STORAGE REVIEW

The DOE released the latest weekly natural gas working storage data, reporting a 195 bcf decline from the previous week, which had no revisions. Working storage totaled 2,179 bcf as of Friday, January 30. The details are provided below:

Region	Current Week Stocks (bcf)	Prior Week Stocks (bcf)	Net Change (bcf)	Year Ago Stocks (bcf)
East	1,087	1,212	-125	1,172
West	334	354	-20	263
Producing	758	808	-50	684
Total Lower 48	2,179	2,374	-195	2,119

The latest working storage draw has thus far been viewed as modestly constructive, but the NYMEX is unsure what to do given the ups and downs of crude oil in line with the equity market. Taking the latest numbers into the context of our Base Case natural gas balances, our forecast storage level for the end of February of less than 1.7 tcf should be achievable barring an extended warm spell, while our end-first quarter target of 1.5-1.6 tcf appears to need no revision at the present time.

With regard to price, the consensus remains quite bearish on natural as with oil, but our numbers suggest a progressive improvement in the gas balance once we pass the first quarter. Our current Base Case for WTI calls for a March average of some \$47.00-\$48.00 per barrel which, when incorporated into our gas pricing model, now suggests a March (basis April NYMEX) target of about \$5.60 per mmBtu, a modest reduction from previous expectations, but nonetheless about \$1.00 per mmBtu above the market.

Information contained herein is believed to be reliable but its accuracy cannot be guaranteed. Past performance is not indicative of future results and the risk of loss is substantial in futures trading. Hornsby & Company, Inc. and W.H. Brown may, from time to time, have positions in the futures market relative to these recommendations.